Credit Issues Surrounding Variable Rate Debt

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Moody's Investors Service

Moody's View of Variable Rate Debt

- Can be a useful component of an asset-liability management strategy.
- Can lower overall interest costs.
- Nonetheless, can introduce additional credit risks that need to be mitigated / managed.

How Much Variable Rate Debt is Too Much?

Question: What is the maximum portion of an issuer's debt portfolio that Moody's believes should be issued as variable rate?

- 10%
- 15%
- 20%
- ??

How Much Variable Rate Debt is Too Much?

Answer: None of the Above.

How Much Variable Rate Debt Is Too Much?

Moody's assesses the amount of variable rate debt in the context of …

- Natural Hedges/Matching.
- Artificial Hedges/Swaps, etc.
- Available Reserves.
- Budget Flexibility.
- Competing Demands
- Budget Practices.

Additional Credit Considerations

- Issuer's investment, debt and swap policies.
- Technical knowledge of management.
- Terms of letters of credit / liquidity facilities.
- Risks inherent in swaps and other hedge instruments: counterparty, basis, termination, and amortization risk.
- Rating triggers.